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Matt Kaplan -

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INR assessment

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TO: C/E - Mr. Zoellick

FROM: INR - Douglas P. Mulholland

SUBJECT: Venezuela: Implications of the Coup Attempt

President Perez has emerged from the attempted coup politically weakened but determined to pursue the stringent economic reforms the coup plotters tried to exploit. We do not believe CAP, or most other Latin leaders are likely to face a similar coup in the near future. Nonetheless, the events of February 4 will reemphasize the risks of implementing austerity, particularly when government is perceived as corrupt and unresponsive. We conclude:

- The failed coup has highlighted widespread discontent with hard-hitting austerity measures, corruption, government inefficiency and military cut-backs.
- The plotters were ultranationalists who hoped to exploit popular discontent; their specific objectives remain vague at best.
- President Perez is likely to hold fast on broad economic reforms, although he may highlight fiscally responsible social welfare programs. Political opponents are likely to step up their criticism of the president in anticipation of December elections.
- With the most aggressive malcontents removed from command a new coup soon does not seem likely, unless Perez fails to directly address key military concerns.
- While elements of the Venezuelan situation are found elsewhere in Latin America, the mix of factors that produced a flashpoint in Venezuela is not duplicated elsewhere.
- Only in Brazil of the major countries is the President's popularity low and public discontent mounting as in Venezuela; even so we do not judge direct military intervention likely in Brazil this year.

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Box 4

*P600-Coup Aftermath II
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Venezuela: After the Coup

The failed coup has brought into the open festering discontent with President Carlos Andres Perez's (CAP) administration, a sentiment seemingly shared by most Venezuelans. Dissatisfaction with the impact of hard-hitting austerity measures, corruption, and government inefficiency, together with military cutbacks and exaggerated nationalism were key rebel motivators.

Only about 1000 of Venezuela's 50,000-man ground forces overtly joined the attempt. It nonetheless came close to succeeding. The plotters, lieutenant colonels and below, were highly-rated officers who led elite military units. Reporting since February 4 indicates widespread support in the military for rebel objectives and depicts a more serious and threatening uprising than was originally acknowledged.

Although the attempt was put down fairly quickly, a surprisingly high level of popular sympathy for the rebels apparently persists. To CAP's frustration, no crowds mobilized in defense of democracy. CAP is promoting "self-censorship" of the media to discourage critics from publicly linking the rebellion with his unpopular economic reform program. Nonetheless, former President Caldera, a founder of the opposition COPEI party, has forcefully made the connection, and has been rewarded with soaring public approval.

Setting the Stage. President Carlos Andres Perez (CAP) surprised voters after his 1989 inauguration by implementing tough austerity measures, many aimed at reversing statist policies begun in his first tenure (1974-1979). The reforms had a dramatic impact, with growth last year reaching 9.2 percent and inflation under control at 33 percent.

The cost has been particularly burdensome, however, for the middle and lower classes who were unusually dependent on far-reaching government subsidies. The January announcement of a "Megaproject" of social reforms was seen as too little too late by those suffering from austerity.

Voicing Displeasure. Violent student protests last fall reflected broader discontent with CAP's economic policies; a recent poll showed 84 percent of the population think things are going poorly. The turbulent protests contributed to a climate of turmoil and malaise that produced coup rumors last fall. In the wake of the coup CAP advisors are trying to warn him that unpopular economic policies are the root cause of the coup, but CAP remains unconvinced, according to clandestine sources.

Double dipping. CAP's administration has been clouded by rampant corruption which has contributed to widespread civilian and military contempt for politicians, political institutions,

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and a bloated, inefficient bureaucracy. CAP's earlier administration was almost as blemished, but it coincided with an oil-based boom and government subsidies that boosted standards of living. His current economic reforms, combined with tolerance of corruption and a seemingly endless list of high-level scandals, appear to have alienated a Venezuelan public unaccustomed to pangs of austerity.

Join the Club. The military has also suffered, as CAP has restructured and downsized the armed forces to reflect reduced resources and a diminished external threat. The impact of denial has been magnified by the fact that Venezuela's politicians had for three decades used swollen military budgets to discourage military political activism. Perez's conciliatory approach to a long-festering border dispute with Colombia probably also alienated nationalistic officers. The ultra-nationalistic "Bolivarian Military Movement" intended, according to their proclamation, to "rescue the Venezuelan people from politicians, from demagoguery and bureaucracy."

Implications. CAP's government has emerged weakened from the coup. He must now deal with the newly sensitive civil-military relationship without strong popular support while facing an emboldened opposition from both his own party and COPEI. Even so, with the most aggressive malcontents removed from command, a new coup attempt does not seem likely, unless CAP fails to directly address key military concerns about cut-backs and rampant corruption.

Immediately after the coup CAP began reassuring business and foreign investors of his intention to press forward on economic reform. He may agree, however, to repackaging reforms to make them appear more palatable, and will likely push ahead on his announced "megaprojects," financing them with last year's windfall of over \$1 billion from privatizations. CAP will face stiff pressure for wage increases and against subsidy cuts, especially if radical students can organize more violent demonstrations. CAP does not want more potentially violent protests when the army's loyalty is questionable. Political opposition is likely to be spearheaded by former president Caldera, an unrepentant statist, whose vocal opposition to the economic program since the coup attempt has bolstered his renegade candidacy for president in 1993.

Implications for the Hemisphere. The rapid rallying of Latin leaders to CAP's support emphasized both their commitment to democracy and, implicitly, a sense of "There but for the Grace..." Elements of the Venezuelan situation exist elsewhere in the region, i.e., austerity programs squeezing middle and lower classes, militaries denied resources and forced to restructure, widespread corruption, and a rejection of ruling political elites. Still, the mix of factors that produced a

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flashpoint in Venezuela is not duplicated elsewhere. Brazil is the only major country where most of the Venezuelan elements are present, and there we judge the chances of a coup as not high.

--In Argentina both Menem and his austerity program have approval ratings of over 60 percent in the polls. Military ultranationalists are thinned out if not eliminated and serious downsizing is underway. Corruption remains a potential vulnerability.

--In Mexico both President Salinas and his policies also enjoy high approval ratings (over 60 percent); Salinas has also softened the impact of austerity with a well-funded social works program.

--In Chile market-oriented policies begun under Pinochet are continuing under President Aylwin to notable success and popular approval. Aylwin has diminished civil-military tensions while whittling away military prerogatives; no unrest is reported in the armed forces.

--In Peru Fujimori faces the region's worst economic mess, but most Peruvians blame his predecessors. Fujimori's strong austerity effort to date has enjoyed some success and his honest, hard-working approach have won him approval ratings of over 50 percent. Fujimori cultivates the military constituency perhaps more carefully than any other.

--In Colombia, where the Venezuelan military is watched carefully, President Gaviria is also popular. Economic reforms have not cut so deeply as CAP's or Menem's. The military is benefitting from increased resources but nonetheless is irked by civilian demands and constraints.

--In Brazil President Collor faces very serious problems because his austerity efforts have failed repeatedly. His approval rating have sunk to 12 percent. What little remains of Collor's political credibility rides on Brazil's performance under the recently approved IMF standby. Corruption and political ineptitude have undermined Collor with congress, political elites, and the public. Brazilians are contemptuous of their political leaders and institutions. The Armed Forces are on a very short fiscal string. Although resentful of being isolated by Collor, however, they appear neither anxious to rule nor plotting his downfall. Rather than throw Collor out, we think the military is more likely to support adoption of a parliamentary system in 1993 or other constitutional measures to marginalize Collor.

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